CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

October 9, 2001

H.R. 2559
A bill to amend chapter 90 of title 5, United States Code, relating to federal long-term care insurance

As ordered reported by the House Committee on Government Reform on July 25, 2001, and by the House Committee on the Judiciary on October 3, 2001

SUMMARY

H.R. 2559 would expand eligibility for long-term care insurance authorized under the Long Term Care Security Act (Public Law 106-265) to persons who had deferred their eligibility for a federal retirement annuity and who, under current law, would not be able to participate when the enrollment period opens in 2003. CBO estimates that enactment of H.R. 2559 would not have a significant effect on federal spending. Because the bill would affect direct spending, pay-as-you-go procedures would apply.

H.R. 2559 would preempt state premium taxes on long-term care insurance offered to federal employees, members of the uniformed services, civilian and military retirees, and a number of their relatives. This preemption would be an intergovernmental mandate as defined in the Unfunded Mandates Reform Act (UMRA). CBO estimates that states would lose revenues totaling about $8 million annually beginning in 2003; thus, the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation) would not be exceeded. The bill contains no private-sector mandates as defined in UMRA.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

Under current law, federal retirees who are receiving an annuity would be able to participate in the long-term care insurance program for federal employees, but those who defer receiving their annuity are not eligible. H.R. 2559 would allow this group to participate. CBO estimates that the number of annuitants who would be newly eligible for the long-term care insurance program for federal employees because of H.R. 2559 would be about 2,000, and of these, only a portion would purchase coverage though the federal program. Because the federal government does not contribute to enrollees' premiums, and the insurer or insurers would be required to reimburse the Office of Personnel Management (OPM) for its expenses in setting up and administering the plan, net federal outlays would be zero over the long run.

The expenses that OPM would incur before collecting premiums from enrollees and reimbursement from the insurers would be funded by outlays from the federal government's Employees' Life Insurance Fund. H.R. 2559 would not affect the administrative costs of designing the plan and negotiating contracts with insurers. However, the federal government would incur additional costs to inform the additional annuitants of their eligibility (which would primarily consist of postage and printing additional brochures about plan choices) and the costs incurred by OPM in registering those who choose to participate. CBO estimates that these additional costs would total less than $500,000, in fiscal year 2002. The costs of this legislation fall within budget function 600 (income security).

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. Although the additional outlays from the Employees' Life Insurance Fund would be direct spending, CBO estimates that they would total less than $500,000.

ESTIMATED IMPACT ON STATE, LOCAL AND TRIBAL GOVERNMENTS

The Long-Term Care Security Act authorized a program through the Office of Personnel Management to offer long-term care insurance to federal employees, members of the uniformed services, civilian and military retirees, and a number of their relatives. That law preempted state laws requiring certain levels of coverage or benefit requirements that would have applied to long-term care insurance offered under the program. This bill would extend the preemption to cover insurance premium taxes, prohibiting states from collecting tax revenues that otherwise would apply to the policies. This preemption would be an intergovernmental mandate as defined in UMRA. CBO estimates that states would lose revenues totaling about $8 million annually beginning in 2003; thus, the threshold established in UMRA ($56 million in 2001, adjusted annually for inflation) would not be exceeded.

Almost all states levy premium taxes on health care insurance, and in most cases those taxes also would apply to policies providing coverage for long-term care. Premium tax rates on health insurance generally range from less than 1 percent to about 2.75 percent, with a large number at about 2 percent. CBO has estimated that about 220,000 employees and retirees would take advantage of the new long-term care insurance and that about half of those individuals would have at least one eligible relative who also would purchase the insurance. Assuming an average premium of about $1,300 annually for such insurance, CBO estimates that states would lose about $8 million annually in lost revenues from the preemption of their premium taxes.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

CBO estimates that the bill would have no private-sector mandates as defined in UMRA.

ESTIMATE PREPARED BY:

Federal Costs: Charles L. Betley
Impact on State, Local, and Tribal Governments: Leo Lex
Impact on the Private Sector: Stuart Hagen

ESTIMATE APPROVED BY:

Peter H. Fontaine
Deputy Assistant Director for Budget Analysis